



2026 INSC 668

REPORTABLEIN THE SUPREME COURT OF INDIA
CIVIL APPELLATE JURISDICTIONCIVIL APPEAL NO. 11950 OF 2025**POOJA RAMESH SINGH****...APPELLANT(S)****VERSUS****JAMMU AND KASHMIR BANK LTD. & ANR.****...RESPONDENT(S)****J U D G M E N T**

1. This is yet again a case where the Tribunal relied on non-existent, fake and hallucinated material, generated through Artificial Intelligence¹ (AI), as if it were a precedent in support of its judgment. For the reasons to follow, we have set aside the judgment of NCLT, as well as the judgment in appeal, to affirm and maintain the integrity of the adjudication and its processes. More than the inevitable consequence of setting aside such judgments, what is significant for our decision-making is our resolve to adopt AI technology in aid of adjudication, while at the same time asserting and declaring total and absolute control over adjudication, with a human in the loop at every stage.

2. Artificial Intelligence has acquired the capability to better, if not fully substitute, human effort, both routine and intellectual. This extraordinary

¹ Also referred to as 'AI'.

capability, amid increased workloads of modern life, is compelling professionals to adapt and employ AI for intelligent, efficient and swift functioning. The Solicitors Regulation Authority (SRA), a body created under the United Kingdom Legal Services Act 2007², approved in 2025, the first purely Artificial Intelligence-driven law firm named Garfield Law Limited (GLA), to provide regulated legal services³. Further, that AI law firm (GLA) is now reported to have successfully navigated the legal system, securing a county court decree in a suit for recovery of unpaid fee⁴. The result can be gratifying, even inspiring; yet if left unregulated, Artificial Intelligence may infiltrate our intellectual work ethic and, before long, render us dependent on its vast capabilities.

² SRA acts as the independent regulator of solicitors for creating an effective deterrent and discouraging professional misconduct by solicitors. A range of sanctions is available to the SRA, including prosecuting more severe cases at the Solicitors Disciplinary Tribunal.

³ SRA approves first AI-driven law firm (Solicitors Regulation Authority, 2025) <<https://www.sra.org.uk/news/news/press/2025-press-releases/garfield-ai-authorised/>>. As per SRA News Bulletin, Garfield Law was approved after checking its compliance on various parameters. The bulletin indicated:-

“Before authorising Garfield Law, we engaged with the owners to consider the firm's processes and assure ourselves that our rules can be met by an AI service. For instance, we have sought reassurance that there are appropriate processes in place to quality-check work, keep client information confidential, and safeguard against conflicts of interests.

We have also checked the firm is managing the risk of 'AI hallucinations.' The system will not be able to propose relevant case law, which is a high-risk area for large language model machine learning. Garfield is not autonomous and will only take a step where the client has approved it, and furthermore there are supervision and monitoring processes in place. This includes greater oversight of claims in the initial launch phase, so that issues or risks can be identified.

Under our rules, named regulated solicitors will still ultimately be accountable for the firm delivering high professional standards. This means they will also be responsible for all the system outputs and for anything that goes wrong. All regulated law firms must also have a minimum level of insurance in place to protect clients.”

⁴ Karl Flinders, ‘Artificial intelligence-based law firm wins in court’ (Computer Weekly, 2026) <<https://www.computerweekly.com/news/366644941/Artificial-intelligence-based-law-firm-wins-in-court>>.

3. Dependency on technology has never been a problem for the dispensation of justice, as our courts have seamlessly absorbed technologies and made them an integral part of court systems. The story of AI, as it is unfolding, is, however, different, in fact, transformative, as it is not just an aid to assist us in our work, but is an alternative to our own thinking, reasoning and even decision making. This is where we need to be extra cautious, as unregulated use of AI will insidiously enter legal practice, the process of judicial decision-making and decision-making itself.

4. Wisdom and foresight compel us to recognise human vulnerability to seek comfort in delegation, but if thinking is delegated and it forms a habit, it will have serious consequences for the core of human existence, which lies in its capacity to think – to discern the distinction between what is right and what is wrong, truth and falsehood, virtue and vice, dharma and adharma. This capability is neither given nor superimposed by birth, but arises from a deliberate, disciplined, and systematic training of the mind alongside lived experiences; it is a battle of the mind against bewitchment caused by the uncertainties between fact and fiction, what is real and what is unreal, propriety and impropriety, as well as what is just and unjust. This intellectual exercise, coupled with experience and foresight, enables us to choose between competing values, as well as to take hard decisions with courage and conviction, and to bring about a

beautiful balance between the *need for order* and the *quest for justice*. A struggle to arrive at truth, it is a *Saadhana*. In fact, the secret is in the Saadhana itself, for without this deliberate, conscious, and continuous practice of scientific temper, we lose the capability to discriminate between what is right and what is wrong. Lose this, and we would have lost everything.

5. It is therefore compelling and necessary to have absolute and total control over the application and usage of AI. The control lies in being two steps ahead of its application and in making deliberate choices about when and where to apply. We are aware that this is not an issue that can be resolved through judicial orders and declaratory judgments, but only through Public Policy and enforceable Rules and Regulations. We are also aware that the process has commenced, the Regulations are being deliberated, and they will be notified after due process and in due course. The real success is, however, not in the making of the Rule or Regulation, but to be found in the power of the will of the Bar as well as the Bench, to harness this science and apply it with care and caution. No other facet of law and its practice has ever demanded a higher and deeper corroboration and coordination between the Bar and the Bench than the need to identify, decide, and apply AI to adjudication and the determination of disputes.

6. At the same time, it is necessary to clarify the position of law regarding a certain trait in AI's responses, a tendency to generate non-existent, fake, or hallucinated results when replying to a prompt. We are neither concerned with the cause nor with the process of resolving such hallucinations; it is for the engineers and scientists to deal with them. For us, i.e., for those in the province of adjudication and determination of disputes, this by-product of AI, i.e., the production of fake, non-existent, and hallucinated material and its utilisation as precedents in law, is like the release of methyl isocyanate in the province of law and justice: invisible, insidious, and catastrophic by the time anyone notices. It not only contaminates but takes away the very lifeblood of judicial determination.

7. It is necessary for Courts to adopt a zero-tolerance mode for producing, citing or using AI-generated precedents without verification. It is a misconduct on the part of an advocate to cite such judgments without verification. Equally, it is a serious lapse if a judge relies on such a fake or hallucinated AI-generated material as precedents in support of the determination. We have no hesitation in declaring that such a decision is no decision in the eyes of the law, irrespective of whether such material had a direct or indirect bearing on the decision-making. Such decisions are to be set aside even if an iota of fake or hallucinated material enters the decision-making process, as it would violate the sanctity of adjudication. It is absolutely necessary to maintain integrity in decision-

making, and we reiterate and declare zero tolerance for the Bar as well as the Bench to cite, refer to, or rely on such material. It is also clarified that our judgment shall have no bearing on the rightful use of AI, but on the presentation or reliance on fake or hallucinated material as if it were a court precedent.

8. We are aware that mere declaration of prohibitory action is not sufficient; there must be a consequential action following accountability.

9. So far as the responsibility of the bar is concerned, we direct the Bar Council of India, being the apex statutory body, to constitute a committee and deliberate on this issue of members of the bar submitting such fake and hallucinated material before the Court as if they are precedents of law. The Bar Council must take up this issue with utmost seriousness, deliberate earnestly, and prescribe a guiding principle to prevent such occurrences, along with the disciplinary action that will follow a violation of the norms.

10. Returning to the facts of the case, it is noted that the appellant is a suspended director of Essel Infraprojects Ltd. ('EIL'), the corporate debtor and corporate guarantor of the original borrower, namely Pan India Utilities Distribution Company Ltd. ('PIUDCL'). PIUDCL had availed certain loan facilities from Jammu and Kashmir Bank Limited, Respondent No. 1. To secure these credit facilities, a corporate guarantee was executed by EIL. In due course, PIUDCL experienced severe financial

stress and failed to maintain its repayment schedules, leading to the classification of its loan accounts as non-performing assets.

11. Following continuous defaults, Respondent No. 1 filed an application under Section 7 of the Insolvency and Bankruptcy Code, 2016, before the National Company Law Tribunal, Mumbai, seeking initiation of the corporate insolvency resolution process against the EIL/corporate debtor for recovery of its outstanding financial debt.

12. The National Company Law Tribunal examined the submissions and, upon finding the existence of debt and default, passed an order dated 28.08.2024 admitting the Section 7 application, appointing an Interim Resolution Professional, and declaring a moratorium under Section 14 of the Insolvency and Bankruptcy Code, 2016. Aggrieved by the admission order, the appellant preferred an appeal before the National Company Law Appellate Tribunal in Company Appeal (AT) (Insolvency) No. 1808 of 2024. Before the appellate tribunal, the appellant contended that the NCLT erred by failing to consider that its liabilities had been transferred to another company due to a scheme of demerger and a subsequent amalgamation. The appellant further contended that a renewed sanction letter dated 18.11.2017 did not mention the guarantee and therefore, the guarantee was deemed to have been relinquished.

13. By the impugned final judgment and order dated 11.09.2025, the NCLAT has dismissed the appeal, confirming the observations of the

NCLT by observing that while it is not disputed that there were internal adjustment by the ESSL group by way of demerger/merger/amalgamation, it has no effect insofar as the liability of the corporate guarantor is concerned because it has been categorically mentioned in clause 8 of the guarantee deed that guarantee will not be determined on event of absorption/amalgamation of corporate debtor with any other company.⁵ The NCLAT also referred to judgments relied upon by the NCLT in paragraph 12 of its opinion in the following manner:

“12. The Tribunal did not accept the contention of the CD and while referring to the decisions of the Hon'ble Apex Court in the case of State Bank of India Vs. M/s Shree Ram Urban Infrastructure Ltd., 2020 SCC OnLine SC 341, Everest Kento Cylinders Ltd. Vs. Union of India (2015) 2 SCC 1, ICICI Bank Ltd. Vs. Urban Infrastructure Real Estate Ltd., (2019) 16 SCC 528, V.S Dempo & Co. Ltd. Vs. Reliance Communications Ltd., (2021) 10 SCC 176, Canara Bank Vs. N.G. Subbaraya Setty & Anr., (2018) 16 SCC 228 and Sarbjit Singh Vs. Union Bank of India, (2022) 7 SCC 464 held that the guarantee given by the CD shall still exist and will not be effected where the two orders referred to herein above passed by the Bombay High Court and admitted the petition because debt and default was not denied.”

14. Aggrieved by the said decision, the appellant has preferred the present appeal. Ms. Madhavi Divan, learned senior counsel appearing for the appellant, at the outset, pointed out that the citations/judgments relied upon by the NCLT to arrive at the impugned findings, as referred by the appellate tribunal in paragraph 12 of its opinion, are fake and non-existent, probably AI-generated. It is pointed out that even where case citations are

⁵ Clause 8: *“this guarantee shall not be determined and not in any way prejudiced by any absorption or by any amalgamation of the guarantor company with any other company, shall incur and be available to the Bank till such time the loan accounts of the borrower company is adjusted in the books of accounts of the bank.”*

accurate, the excerpted paragraphs from the judgment(s) are not traceable to those judgments in law reports. Ms. Divan also advanced brief arguments on the merits of the matter. The learned counsels appearing for the respondents have countered the submissions on merits.

15. It is not in dispute that the judgments relied upon by the NCLT are non-existent, and some AI-generated paragraphs are wrongly attributed to genuine citations. An independent examination undertaken by us reveals the following about the judgments relied upon by the adjudicating authority: ***State Bank of India v. M/s Shree Ram Urban Infrastructure Ltd., 2020 SCC OnLine SC 341*** (cited in para 44 of NCLT judgment) – Wrong citation of an existing reported judgment⁶ and a non-existent paragraph, ***Everest Kento Cylinders Ltd. v. Union of India (2015) 2 SCC 1*** (cited in para 45 of NCLT judgment) – Correct citation but non-existent paragraph, ***ICICI Bank Ltd. v. Urban Infrastructure Real Estate Ltd., (2019) 16 SCC 528*** (cited in para 47 of NCLT judgment) – Non-existent citation, ***V.S. Dempo & Co. Ltd. v. Reliance Communications Ltd., (2021) 10 SCC 176*** (cited in para 49 of NCLT judgment) – Non-existent citation, ***Canara Bank v. N.G. Subbaraya Setty & Anr., (2018) 16 SCC 228*** (cited in para 51 of NCLT judgment) – Correct citation but

⁶ Correct cause title for the cited judgment is M. Subramaniam v. S. Janaki, (2020) 16 SCC 728; ***2020 SCC OnLine SC 341***.

non-existent paragraph and ***Sarbjit Singh v. Union Bank of India, (2022) 7 SCC 464*** (cited in para 53 of NCLT judgment) – Non-existent citation.

16. Respondent No. 1 has filed an affidavit indicating that the alleged judgments relied on by NCLT were not cited by its counsel at the bar. The affidavit also indicates that the so-called precedents relied on by the adjudicating authority were obtained through its own research. What about the Appellate Tribunal? The fake, non-existent judgments escaped scrutiny by the first statutory appellate tribunal. Today's courts and tribunals implicitly trust lawyers when referring to precedents cited before them. Imagine the hardship of a situation in which the Court must verify the authenticity of each judgment cited by an advocate.

17. Judicial process and the judgment under challenge are tainted by the usage of materials which are said to be precedents, but in reality, they are unreal, fake, and do not exist at all. A decision of a Court or an adjudicating authority based on material which is fake and hallucinated is no decision at all, and it amounts to subversion of the rule of law. Such a decision is unsustainable and has to be set aside at the earliest⁷.

⁷ A prominent law firm of UK Pinsent Masons LLP utilised an internal artificial intelligence program carelessly during a block transfer application. In that instance, a junior associate accepted a completely fabricated statutory quote generated by the software without verifying it against authoritative legal texts, a critical error that went entirely unnoticed by the supervising partners. When the High Court questioned the non-existent text, the firm compounded the issue by submitting a subsequent letter containing an unconvincing, misleading explanation engineered by the software to mask the initial hallucination. Although the presiding judge ultimately desisted from instituting formal contempt of court proceedings due to a lack of deliberate dishonest intent, *Anthony Malcolm Cork & Anor v. Mark Smith*, [2026] EWHC 1199 (Ch), the reckless oversight wasted judicial resources, prompted a public admonishment from the bench, and forced the clients to transfer their matter to new legal representatives. Eventually, Pinsent also referred itself to the SRA for a formal investigation by the regulatory body- 'Pinsents' botched AI use sparks dependency alarm' (Law Society Gazette, 2026) <<https://www.lawsociety.ie/gazette/top-stories/2026/may/pinsents-botched-ai-use-sparks-dependency-alarm/>>.

18. For the reasons stated above, the judgment and orders passed by the NCLT and NCLAT dated 28.08.2024 and 11.09.2025 are hereby set aside. In view of the above, the Section 7 application, RCP (IB) 6/MB/2023, is restored to its original number.

19. The NCLT shall proceed with the said application and pass orders in accordance with law. We make it clear that we have not expressed any opinion on the merits of the case. It is for the adjudicating authority to consider the facts and circumstances of the case to decide the case on its own merits.

20. In view of the fact that the Section 7 application was filed long back, it is directed that the adjudicating authority shall take up and dispose of the said application expeditiously, preferably within a period of two weeks from today. Pending disposal of the said Section 7 application, the parties are directed to maintain the status quo as of today.

21. The appeal is disposed of in the above terms. Pending IAs, if any, are disposed of accordingly.

.....J.
[PAMIDIGHANTAM SRI NARASIMHA]

.....J.
[ALOK ARADHE]

**NEW DELHI;
JULY 02, 2026.**